

in prior taxable years) as C (the number of units of the ore or mineral benefited by such expenditures sold during the taxable year) bears to D (the number of units of ore or mineral benefited by such expenditures remaining as of the taxable year). For the purposes of this proportion, the *number of units of ore or mineral benefited by such expenditures remaining as of the taxable year* is the number of units of ore or mineral benefited by the deferred development expenditures remaining at the end of the year to be recovered from the mine or other natural deposit (including units benefited by such expenditures recovered but not sold) plus the number of units benefited by such expenditures sold within the taxable year. The principles outlined in § 1.611-2 are applicable in estimating the number of units remaining as of the taxable year and the number of units sold during the taxable year. The estimate is subject to revision in accordance with that section in the event it is ascertained, from any source, such as operations or development work, that the remaining units are materially greater or less than the number of units remaining from a prior estimate.

[T.D. 6500, 25 FR 11737, Nov. 26, 1960, as amended by T.D. 6841, 30 FR 9307, July 27, 1965]

**§ 1.616-3 Time for making election with respect to returns due on or before May 2, 1960.**

In the case of any taxable year beginning after December 31, 1953, and ending after August 16, 1954, the income tax return for which is due not later than May 2, 1960, the time to deduct or defer development expenditures for such a year under section 616 (a) or (b) shall expire on May 2, 1960.

**§ 1.617-1 Exploration expenditures.**

(a) *General rule.* Section 617 prescribes rules for the treatment of expenditures paid or incurred after September 12, 1966, for ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral for which a deduction for depletion is allowable under section 613 (other than oil or gas) paid or incurred by the taxpayer before the beginning of the development stage of the mine or other

natural deposit. Such expenditures hereinafter in the regulations under section 617 will be referred to as exploration expenditures. The development stage of the mine or other natural deposit will be deemed to begin at the time when, in consideration of all the facts and circumstances (including the actions of the taxpayer), deposits of ore or other mineral are disclosed in sufficient quantity and quality to reasonably justify commercial exploitation by the taxpayer. For example, core drilling expenditures paid or incurred by the taxpayer to ascertain the existence of commercially marketable ore are exploration expenditures within the meaning of this section. Also, expenditures for exploratory drilling from within a producing mine to ascertain the existence of what appears (on the basis of all of the facts and circumstances known at the time of the expenditures) to be a different ore deposit are exploration expenditures within the meaning of this section. Expenditures paid or incurred in connection with core drilling to further delineate the extent and location of an existing commercially marketable deposit to facilitate its development are development expenditures. Under section 617(a), a taxpayer may deduct exploration expenditures paid or incurred for the exploration of any deposit of ore or other mineral subject to the limitation of section 617(h). Under section 617(b), a taxpayer shall recapture the exploration expenditures previously deducted under section 617(a) either through including in income an amount equal to the amount of the adjusted exploration expenditures (as defined in section 617(f)) or through disallowance of the deduction for depletion under section 611. Certain rules are provided in section 617(c) for recapture of exploration expenditures made with respect to property for which the taxpayer later receives a bonus or royalty. Under section 617(d), gain from dispositions of mining property, with respect to which exploration expenditures have been previously deducted, is to be recognized notwithstanding certain other provisions of the Code.

(b) *Expenditures to which section 617 is not applicable.* (1) Section 617 is not applicable to expenditures which would